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FINANCING OVERSEAS DEVELOPMENT: THE ADMINISTRATION'S PROPOSAL

HEARING

BEFORE THE

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HOUSE OF REPRESENTATIVES

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FINANCING OVERSEAS DEVELOPMENT: THE ADMINISTRATION'S PROPOSAL

WEDNESDAY, APRIL 11, 2018

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:00 a.m., in room 2172 Rayburn House Office Building, Hon. Edward Royce (chairman of the committee) presiding.

Chairman ROYCE. We will call this hearing to order.

Across the planet, lack of access to capital often constrains economic growth and especially this is true in the world's least-developed countries. In these emerging markets, foreign investment is critical to empowering entrepreneurs, to creating jobs, and, of course, to reducing poverty.

America has an undeniable interest in supporting the development of vibrant and stable economies around the world and healthy private sectors promote good governance, supports thriving civil societies. They help reduce civil strife within the country and the resulting stability is not only good for our national security, it also benefits U.S. exports and benefits jobs.

Increasingly, other countries are working to advance their economic and political interests by shaping overseas markets. Beijing is doing this in a big way. China's $1 trillion "One Belt, One Road" initiative could be contrasted with the Marshall Plan, which rebuilt war-torn Europe. But it works in a very different way. If you visit any African capital you'll see China's name on new construction projects.

But as Chairmen Yoho and Smith's subcommittees know well, China often entices foreign governments in search of easy money and then saddles them with unsustainable debt burdens, and they do that through predatory—basically, predatory lending practices.

In the Indian Ocean, for example, Sri Lanka was forced to forfeit a 99-year lease to one of its strategic ports because it could not afford the debt burden on that Chinese loan.

The U.S. cannot and shouldn't match China's investments dollar for dollar, but we can and should do more to support international economic development and do it with partners who have embraced the private sector-driven development model and done so under a concept of rule of law.

Today, we will hear from the president and CEO of the Overseas Private Investment Corporation whose mission is to complement traditional U.S. foreign assistance by mobilizing private capital in

support of America's development objectives and support of our foreign policy interests.

This was established in the 1970s. OPIC was to provide, to quote from the document, "businesslike management of investment incentives" and that included political risk insurance, direct loans, loan guarantees, and other services to developing nations.

So we are 50 years later here. The OPIC's toolkit has largely remained the same while the international economic landscape has changed dramatically.

And that's why I am in support of this bipartisan legislation by our Subcommittee Chairman Yoho to build a modern development finance institution that will promote enduring growth in emerging economies and will support our U.S. national security objectives.

In an era of tight budgets, this proposal would consolidate the resources and consolidate the expertise of OPIC and the Agency for International Development's Development Credit Authority and it would do all this under one roof with new powers to make limited equity investments, conduct feasibility studies, provide wraparound services such as grants and technical assistance, and double its book of business.

This proposal would also create an independent inspector general. Now, that would increase the accountability for taxpayers and it would put in place tough statutory benchmarks that must be met to ensure that American development finance complements and does not crowd out private sector investment.

I am encouraged that the administration has embraced this bipartisan approach, which members of this committee have been working on, and today we'll hear more about its vision for international cooperation and how the new development finance institution would work with USAID and Millennium Challenge Corporation to ensure coordination between our development agencies.

With the right leadership and authorities, a new development finance institution can be a powerful instrument to create opportunities in countries hungry for growth and jobs and its creation would also send a strong signal about America's commitment to international economic engagement in uncertain times.

And with that, let me yield to the ranking member, Mr. Bera, today for an opening statement.

Mr. BERA. Thank you, Mr. Chairman. While Facebook may be a household name, I think this is the most important hearing that's happening this morning because the impact of the Overseas Private Investment Corporation that you oversee, Mr. Washburne, has had the ability and has impacted lives of millions of folks across this world.

This is a very timely hearing as we look at the BUILD Act, as we think about how we modernize overseas investment and credit.

It is one of the remarkable things that we can do in terms of good will for the United States and not cost the taxpayers anything—actually, generate revenue for the Treasury as well as generate good will around the world.

So as we look at these programs it's important for us to examine OPIC's story as well as its role in the development toolkit. Founded in 1971, OPIC seeks to promote economic growth in developing and

emerging markets by providing political risk insurance and direct loans and guarantees to businesses.

And while OPIC is appropriated by Congress, it actually returns, as I said, over $250 million to the taxpayers because it runs a surplus and it's achieving important development outcomes.

OPIC is doing this while enhancing the welfare of recipients. One small example is its partnership with MicroBuild, which is a housing first micro finance program established by Habitat for Humanity.

MicroBuild provides micro finance lending to families who do not have access to traditional means of credit in developing countries like Cambodia.

By investing in the MicroBuild fund, OPIC has allowed thousands of low-income individuals around the world to find homes. It's a great example of development at work.

OPIC helped to crowd in investment for MicroBuild and improved the lives of new homeowners who would not have been able to access the financing otherwise.

This focus on quality and improved outcomes is in stark contrast to other countries are who are in developed finance. Take, for example, the Isimba and Karuma Dams in Uganda funded by the Ex-IM Bank of China, both of which have sprouted cracks. It's probably not a good thing that you want to see in dam.

Development finance by the newly empowered DFI then offers a high-quality alternative to Chinese financing. As we seek to confront the challenges of the 21st century and to ensure that the youth dividend is not wasted in developing countries, development finance can be a powerful tool in our tool kit.

It'll need to be wielded expertly by our development professionals and cannot replace our other forms of assistance but, rather, complement them.

Ultimately, development finance can improve the lives and wellbeing of millions of people, catalyze private sector growth, build capacity in recipient nations, and set these nations on a path to self-reliance.

I look forward to hearing from Mr. Washburne on how a newly empowered DFI can achieve these development outcomes in a sustainable and responsible way.

And with that, Mr. Chairman, I yield back.

Chairman ROYCE. Well, I thank you, Mr. Bera, and this morning I am pleased to welcome Ray Washburne, president and CEO of OPIC, the Overseas Private Investment Corporation.

This is his first appearance before our committee and he brings to the table decades of experience in business and investment including overseas and including in the real estate and restaurant industries over the course of his career.

He has served on the board and loan committees of several banks, infrastructure, construction, and manufacturing businesses. He's been engaged in those as well.

He's spent a great deal of time in Africa where he funded the construction of a new K-12 school for children in Zambia.

So we very much appreciate him being with us today to discuss this and without objection the witness' full prepared statement is going to be made part of the record.

Members here are going to have 5 calendar days to submit any statements or questions to him or extraneous material for the record. We will ask him to summarize his remarks and then we will go to questions.

I know the Summit of Americas starts today and I know something about the flight schedule down to Lima, Peru.

So I think we are going to have to probably wrap up by 12:15 for you to make that flight. So we will go right to your opening statement now, and thank you again, Mr. Washburne.

STATEMENT OF THE HONORABLE RAY W. WASHBURNE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. WASHBURNE. Thank you.

Thank you for inviting me to testify today on this critical topic. Chairman Royce, I'd like to acknowledge the work you have done to advance U.S. foreign policy, particularly in Africa.

From the African Growth and Opportunity Act to empowering women to Electrify Africa, you were a step ahead. Dr. Bera, I enjoyed getting to know you yesterday and learning more about your priorities.

Indeed, this committee's bipartisan work has helped set the stage for the administration's proposal for the United States to establish a reformed, more effective Development Finance Institution with modernized tools and a focus on supporting private sector-driven development.

When it comes to meeting the massive development needs around the globe and advancing American foreign policy, this proposal—and the legislation the committee is weighing—is essential.

As you know, development finance uses tools such as loans, guarantees, and political risk insurance to facilitate private sector investment in emerging markets that will have positive developmental impact.

These are transactions the private sector won't do on their own.

Through OPIC, the U.S. Government has used these tools to back projects in key sectors such as power, water, and health that improve life for millions and lay the groundwork for economic growth.

Likewise, the U.S. Government has used USAID's Development Credit Authority to drive private investment into countries that have not had sufficient—or any—access to commercial finance.

This model of mobilizing private investment is only becoming more prominent, as the needs in the developing world are just too great to meet with government resources alone.

Yet, U.S. capabilities have become outdated as we have gone without significant legislative updates. As a result, we lack the modern 21st century mechanisms needed to either compete with countries like China or cooperate with our allies like Britain, Germany, and Japan, which are investing heavily in emerging markets.

And a global competition for influence is on. While I was in Asia, I saw how China's Belt and Road Initiative is changing the political and economic landscape.

The amount of investment China has planned for this initiative is staggering, aimed at interconnecting 65 percent of the world's population, one-third of the world's GDP, and a quarter of all goods and services.

Of course, a condition of many of these loans is that Chinese firms and labor get the business. And we know what happens when countries can't pay.

In December, for example, Sri Lanka gave control of a strategic port to Beijing for 99 years. This comes as China has been stepping up its presence in the Indian Ocean and South China Sea and all of its critical shipping lanes.

Mr. Chairman, we have to be engaged in the developing world with a robust alternative to these state-directed investments, which can leave developing countries worse off. And we have an alternative in a new United States Development Finance Institution.

This proposal is a result of the President's Executive order on reorganizing government which prompted a fresh interagency look over several months. We found that the U.S. Government's ability to deploy these tools strategically is limited by outdated legal authorities and fragmentation.

With this in mind, the administration developed a proposal to improve efficiencies, reform programming, and—as envisioned by the National Security Strategy—elevate these tools to advance U.S. foreign policy goals.

The President's budget proposes to consolidate multiple U.S. Development Finance Institutions into a new stand-alone Development Finance Institution. The DFI will have better policy alignment and strong links to State and USAID to ensure its transactions align with U.S. foreign policy and leverage USAID's programming.

This includes $56 million in funding for technical assistance and grants for potential DFI projects that need a bridge to becoming investment ready. We also need governance and management structures to ensure the DFI and USAID's field work seamlessly.

The administration is requesting $96 million in administrative expenses for the DFI. However, through careful loan and insurance underwriting, it is expected the DFI will not only offset its own operating costs but also return hundreds of millions of dollars to the U.S. Treasury.

The new DFI will include reforms to better manage taxpayer risk and ensure its investments are additional to the private sector. We will not subsidize projects that can or should be financed on their own and we will ensure that our work upholds the highest environmental, social, and worker rights standards.

Another part of the reformed DFI is increased transparency and accountability through expanded inspection and oversight. The President's budget requests $2 million for this purpose.

In conclusion, Mr. Chairman: In 7 months as the head of OPIC, I've seen the power of the private sector unleashed to advance U.S. foreign policy.

OPIC approved a transaction which will increase Ukraine's energy independence from Russia. OPIC formally launched its 2X Women's Initiative to catalyze over $1 billion in capital to invest in projects that empower women; and OPIC signed an MOU with

our Japanese counterparts to bolster investment in the Indo-Pacific region and beyond.

A new modernized DFI will be far more competitive, creating countless opportunities throughout the developing world. But this modernization of development finance cannot happen without the support of this committee.

I am extremely thankful for the leadership of Mr. Yoho for embracing this concept through H.R. 5105. Indeed, just last evening, the administration released a statement noting its strong support for the goals of this legislation. I look forward to working with the committee as the process moves forward to ensure the DFI is structured for long-term success.

I'll be happy to address any questions you may have.

[The prepared statement of Mr. Washburne follows:]

Statement of Ray W. Washburne, President & CEO, *Overseas Private Investment Corporation*, to the House Foreign Affairs Committee

Financing Overseas Development: The Administration's Proposal

April 11, 2018

Introduction

Thank you for inviting me to testify today on this critical topic.

Chairman Royce - I'd like to acknowledge the work you have done to advance U.S. foreign policy, particularly in Africa. From the *African Growth and Opportunity Act* to empowering women to *Electrify Africa*, you were a step ahead. Ranking Member Engel, your leadership has been instrumental in strengthening U.S. engagement in the world, particularly in the Western Hemisphere.

Indeed, this Committee's work has helped set the stage for the Administration's proposal for the United States to establish a reformed, more effective *Development Finance Institution* - with modernized tools - and a focus on supporting private sector driven development.

Development Finance and the International Landscape

When it comes to meeting the massive development needs around the globe and advancing American foreign policy, this proposal - and the legislation the committee is weighing - is essential.

As you know, "development finance" uses tools such as loans, guarantees and political risk insurance to facilitate private-sector investment in emerging markets that will have positive developmental impact. These are transactions the private sector won't do on their own.

The U.S. Government has used these tools through the *Overseas Private Investment Corporation* (OPIC) to back projects in key sectors such as power, water, and health that improve the quality of life for millions, and lay the groundwork for creating modern economies.

Likewise, the U.S. Government has used USAID's *Development Credit Authority* (DCA) risk-sharing guarantee program to drive private investment into countries and sectors that have not had sufficient - or any - access to commercial finance.

This model of mobilizing private investment is only becoming more prominent, as the needs in the developing world are just too great to meet with official government resources alone.

Yet, U.S. capabilities have become outdated. We have been operating for years without significant legislative updates.

As a result, we lack the modern, 21st century mechanisms needed to either compete with countries like China, or cooperate with allies like the United Kingdom, Germany, and Japan, which are investing heavily in emerging markets.

And a global competition for influence is on. While I was in Asia, I saw how China's *One Belt, One Road* initiative is changing the political and economic landscape. The amount of investment China reportedly has planned for this initiative is staggering - aimed at interconnecting about 65 percent of the world's population, about one-third of the world's GDP, and about a quarter of all goods and services.

Of course, a condition of many of these loans is that Chinese firms – and labor – get the business. And we know what happens when countries can't pay. In December, for example, Sri Lanka gave control of a strategic port to Beijing for 99 years. This comes as China has been stepping up its presence in the Indian Ocean region and its critical shipping lanes.

Mr. Chairman – we have to be engaged in the developing world with a robust alternative to these state-directed investments, which can leave developing countries worse off. This state-directed approach is not consistent with our values, which incorporate the high standards of international financial institutions related to governance, transparency, debt sustainability, environmental, and social safeguards.

The President's Initiative

We have that alternative in a new, U.S. Development Finance Institution (DFI).

This proposal is a result of the President's Executive Order on reorganizing government, which prompted a fresh look at the issue. Over several months, we worked closely with the Department of State, USAID, and others through an inter-agency effort, led by the Office of Management and Budget and the National Security Council, to discuss challenges related to development finance. This group concluded that the U.S. Government's ability to deploy these tools strategically is limited by outdated legal authorities and fragmentation across government.

With this in mind, the Administration developed a proposal to improve efficiencies, reform programming, and, as envisioned by the National Security Strategy, elevate development finance to help advance U.S. foreign- policy goals.

Proposed Development Finance Institution

The President's Fiscal Year 2019 Budget Request proposes to consolidate multiple U.S. development-finance functions, such as OPIC and USAID's DCA, into a new, standalone, Development Finance Institution (DFI) that will coordinate all development financing.

The DFI will have better policy alignment through updated governance structures and stronger linkages to State and USAID to ensure the DFI's transactions also align with U.S. foreign policy and leverage USAID's programming. For example, the linkages include $56 million requested in Economic Support and Development Funding that can be used to provide complementary technical assistance and grants for potential DFI projects that need a bridge to becoming investment ready. We also need to establish innovative governance and management structures

to make sure the DFI works closely with USAID's Bureaus and field Missions, so USAID can invest in the DFI's transactions. Similarly, U.S. Embassies and diplomats will explore and champion new market opportunities on behalf of U.S. commercial, development, and national security interests.

The Administration is requesting $96 million in administrative expenses and $38 million for credit programing, project-specific feasibility studies, and other tools for the DFI. However, through careful loan and insurance underwriting, it is expected the DFI will not only offset its own operation and program costs but also return hundreds of millions of dollars to the Treasury.

The new DFI will include reforms to better manage taxpayer risk and ensure that US government investments are additional to the private sector. We must ensure that while our work supports the creation of economic growth in emerging markets, it will not displace the private sector or subsidize projects that can or should find their own financing. And we must also ensure that this work upholds the highest environmental, social and worker rights standards.

Another part of a reformed DFI is increased transparency and accountability. One example of how the DFI will achieve these objectives is through an expanded inspection, oversight, and evaluation function. The President's Budget requests a robust $2 million for this purpose.

Conclusion

Mr. Chairman: In seven months as the head of OPIC, I've seen the power of the private sector unleashed to advance U.S. policy:

- ✓ OPIC approved a transaction which will increase Ukraine's energy independence from Russia;
- ✓ OPIC formally launched its 2X Women's Initiative to catalyze over $1 billion in capital to invest in projects that empower women and stabilize communities; and
- ✓ OPIC signed a Memorandum of Understanding with our Japanese counterparts to bolster investment in critical sectors in the Indo-Pacific and beyond.

A new, modernized DFI could be far more innovative and competitive, creating countless opportunities for communities throughout the developing world who will benefit from the economic impact of its investments.

But this modernization of development finance cannot happen without the support of this Committee through authorizing legislation. We are thankful for the leadership of Mr. Yoho and other Members for embracing this concept through H.R. 5105, and look forward to working with the Committee on the details of this legislation to ensure it grants the DFI the authorities and creates the structure needed to foster its long-term success.

I would be happy to address any questions you may have.

Chairman ROYCE. Very good. I have some quick questions for you and, as you know, one of the advantages of USAID's development credit authority is it relies on the expertise of the men and the women in the field and that their expertise helps to ensure that the risk sharing agreements are in line with America's development objectives.

So the question I have is if you're going to merge the development credit authority and OPIC, would the new Development Finance Institution still be able to benefit from USAID's personnel in the field? Is that what this is predicated on?

Mr. WASHBURNE. Yes, sir. I met with Administrator Mark Green last week. We have his strong support. We have a letter of support from USAID. In the field they can use OPIC now as a force multiplier——

Chairman ROYCE. Okay.

Mr. WASHBURNE [continuing]. Because USAID right now has one tool and merging it with the new DFI they'll have seven different financing fields.

Chairman ROYCE. So just so we have a grasp on this, what sort of institutional linkages here to do envision between USAID and the development credit authority that——

Mr. WASHBURNE. Well, the development credit——

Chairman ROYCE [continuing]. In other government agencies?

Mr. WASHBURNE. The development credit authority will be moved over to OPIC and administered by OPIC——

Chairman ROYCE. Okay.

Mr. WASHBURNE [continuing]. But the field staff will still be USAID.

Chairman ROYCE. All right. All right.

Chairman Yoho's BUILD Act would authorize the new Development Finance Institution to make limited equity investments in projects. So I just ask what investment criteria would the—a new development—the new DFI use to ensure that such authority goes to worthy recipients and that it is not politicized and that it is—does not replace private sector capital?

Mr. WASHBURNE. The equity authority helps modernize OPIC's financing tools. Currently, every other DFI in the world has equity authority and we have an opportunity to participate in some very strategic investments with the British and the Germans and others and we don't have the ability to do that because we are purely a debt instrument at this time.

So having the equity authority enables us to participate in many more projects.

Chairman ROYCE. We discussed one example—there are a number of examples of predatory practices in terms of loans that we've see applied by other countries.

During Secretary Tillerson's trip to Africa, I know he warned nations on the continent not to forfeit any elements of your sovereignty as you enter into loans with China.

As you noticed in your testimony, you mentioned a condition of many of these loans is that Chinese firms and Chinese labor get the businesses, not local firms, right—not people in country—and that comes at a cost.

A new think tank paper out last month identifies eight countries that China is loaning to at risk of debt distress. So how would a new Development Finance Institution counter this predatory Chinese model and allow for sustainable economic growth?

Mr. WASHBURNE. Well, in the banking business we call what the Chinese are doing "loan to own." Their whole purpose is to overloan on projects with the purpose to go in and take control of them.

As you know, the United States—this development authority will only make private sector-led projects. We don't lend to state enterprises, and so a considerable amount of equity goes into these projects.

So we've had a great success in investing with the private sector into these areas. One thing that the equity authority gives us is the ability to counteract a lot of these Chinese investments because we don't have enough tools in our tool belt to compete with them.

Chairman ROYCE. My time is going to expire here.

So I will go to Dr. Ami Bera. And he's deferring to Mr. Brad Sherman.

Mr. SHERMAN. I think the basic facts are clear. You do a lot to help international development, which is an important objective of the United States, and instead of at a cost to the taxpayer you actually return some money to the taxpayer.

What's absurd is you haven't—you're not functioning under a long-term authorization. That is not your fault. That is Congress' fault.

Back in 2007, we worked together on a comprehensive long-term reauthorization. My hope is that the provisions of that bill find their way into the legislation we are working on.

But I want to commend OPIC for doing what I would like to see other agencies do and that is take congressional input seriously you have adopted by regulation or by policy.

Many of the provisions of that 2007 bill which passed this committee overwhelmingly with the support of the chairman and which—as a matter of fact, I think we were both chair and ranking member of the relevant subcommittee that created that product.

And I would hope that your staff would indicate whether you have an objection to including those same provisions in the new legislation. In particular, a preference for renewable energy projects, annual reports to Congress, support for international workers' rights.

I assume that these are things that are now part of your ongoing process and that you wouldn't have an objection to seeing them in statutory language. Mr. Washburne?

Mr. WASHBURNE. Yes, sir.

Well, thank you, Representative Sherman, and thank you for our conversation yesterday. We talked many of these points out. And thank you for your leadership. You went over yesterday in 2007 your frustrations in getting this bill pushed forward.

Mr. SHERMAN. I have been a strong supporter of a unicameral legislature for the Federal Government for a long time.

Mr. WASHBURNE. Yes.

Mr. SHERMAN. To Nebraska. Yes.

Mr. WASHBURNE. Okay. And your points—we went back and discussed them with the staff. The provisions of the bill, you cham-

pioned many of them, have become part of OPIC policy and we are happy to have our staff get together with yours to go over the other specific issues that you don't feel are included.

Mr. SHERMAN. And I want to commend you for having a policy against what I call an anti-Armenia railroad and for limitations on investments in Gaza.

The new bill does not have the provision that would require you to have on your board a representative of small business and a representative of organized labor.

Have the people filling those posts been useful? Would it be useful to have those people on your board in the future?

Mr. WASHBURNE. Yes, sir. I had nothing to do with the makeup of the board. That was what the committee brought to us. They have been helpful in the past, yes.

Mr. SHERMAN. Okay. My colleagues will point out usually I have a host of not entirely pleasant questions for witnesses and I am at a loss with——

[Laughter.]

Mr. SIRES. Would you yield?

Mr. SHERMAN. I could indeed, but that would be so uncharacteristic that the effect on the cardiovascular system of some in the room would not be something I could take responsibility for.

I go through a few of—now, when it comes to the extractive industry transparency standards, it's one thing to say that OPIC's project would adhere to those standards.

But could you live with a rule that said that the host country in all of its activities would live with those extractive industry standards?

Mr. WASHBURNE. Sir, whatever the committee decides to include in the bill is how OPIC will operate. So I don't have a comment on that.

Mr. SHERMAN. At the risk to Karen's health, I will yield back. [Laughter.]

Chairman ROYCE. We thank the gentleman for yielding.

We go now to Mr. Dana Rohrabacher of California.

Mr. ROHRABACHER. Mr. Chairman, I will yield to Mr. Yoho.

Mr. YOHO. I thank my colleague from California.

Mr. Washburne, thank you for being here. We are excited, obviously, with the rollout of this bill. I want to thank Chairman Royce and Member Engel and all the people that are on the committee that have co-sponsored this bill, H.R. 5101, the BUILD Act.

The BUILD Act sets out to accomplish one not-so-simple thing—transitioning countries—and this is something that—you know, I've been up here going on 6 years—is how do we move countries from aid to trade, and if you look at our top 15 trading partners, 12 of them were a recipient of foreign aid.

And so we looked at a way that we can coalesce all the different agencies and departments. I think there are over 70 of them that give out some form of foreign aid and assistance. And so we wanted to bring them together and we appreciate the input you have had on this and moving forward.

We met with a group today that rebutted what you just said about the lending to private-owned enterprises and we do not lend

to state-owned enterprise—we brought that up but they didn't believe that. So we sure help you putting that out more.

And I think one of the big things is to counter China. We can't compete with them dollar for dollar, and as we know, it's the One Belt, One Road and I tell people it's one way and it leads to China's depositories.

And they remind me of the robber barons of the old days in America where they did those lending practices to consume what they lent to, as we saw with Sri Lanka and their port there.

And so as we move forward with this, I think Chairman Royce brought out a very good point. It mobilizes the private capital markets is what we see and what I envision in this is by the BUILD Act acting as a catalyst to spur that private capital investment in countries that are searching for that investment with the goal, again, to transition from foreign aid of the past where we spent $1 to moving to where we are investing $1 in infrastructures, developing those economies so where we can grow this.

Knowing that we can't compete dollar for dollar with China, do you see this bill as a way to counter what they're doing in, like, the South China Sea?

We know that that area now—ASEAN bloc of nations—there's going to be more people living in the Southeast China Sea area. By 2050, there's going to be more people living in that than outside of that in the rest of the world.

Do you see this as a good vehicle to start countering that and one that's needed by this country?

Mr. WASHBURNE. Thank you, and your leadership has been critical to this bill and I thank you for that——

Mr. YOHO. Thank you.

Mr. WASHBURNE [continuing]. And the entire DFI community thanks you for that.

Mr. YOHO. This has been a team effort with the whole committee so I appreciate it.

Mr. WASHBURNE. Right. But speaking specifically to the South China Sea, one thing that OPIC does, as you know, is large infrastructure projects—things like ports, railroads, LNG plants, things that bring power and electricity.

The Chinese have swung under the underbelly of India, I was recently in India. They have come to us and wanted us to come in and help prop up, with private enterprise, their ports and things so the Chinese don't come in and control that area because the Sri Lanka deal was a wake-up call for that entire region.

Mr. YOHO. It sure was, and we are seeing that in other areas like the Maldives and that island—they're investing between Australia and the United States in the Hawaii area——

Mr. WASHBURNE. Yes.

Mr. YOHO [continuing]. And they're going to do that over and over again and we've seen that in Djibouti. And we just need a vessel, a vehicle, that we can change the dynamics and we haven't had a major reform to OPIC, which was started in 1971, for the last 40 to 50 years and this is something that is sorely needed and I look forward to having your leadership on this and any recommendations that you can give us. I don't know if you can in your official capacity but anonymously—if you can give them to us

through Edward, maybe——[laughter]—would be great and we look forward to this getting moved down through that. And I think the biggest thing is, how do you choose a country to go ahead and invest with the model that we are putting up here with the development finance? I would like to also hear your thoughts on the Development Finance Institution that's being created that we can partner with private enterprise and we can partner with other countries where before we were limited what we could do with OPIC. What's your thoughts on that?

Mr. WASHBURNE. Well, I will start with the first one—the regions that you spoke to. One is as the chairman mentioned earlier, I am going to the Summit of the Americas this afternoon.

The Western Hemisphere is a top priority for this Government. The Chinese have committed $10 billion to Port-au-Prince in Haiti. So right at the front door of the United States they're going to control one of the largest ports.

I am meeting with multiple port development people and government officials in Mexico, Colombia, Peru, trying to see what the situation is there because the ports in most of these countries, as you know, are controlled by private enterprise because they have the shipping. We are talking to Dole Bananas, actually, in Peru. They've got a very large port on the Pacific that they want to expand because they need to get agricultural products out.

The Chinese have stepped up and said they'd like to do it. The local governments are on to what the Chinese are up to and so they've asked us to step in.

When we look at multi-billion-dollar type projects, OPIC's maximum loan that we do to a single project is only $500 million. These projects are multi-billion-dollar size projects.

Mr. YOHO. Right.

Mr. WASHBURNE. But the fact that we have some involvement in it shows those host countries that the United States has an interest in keeping them secure.

Mr. YOHO. Thank you. I yield back.

Mr. Chairman, thank you and I appreciate your support.

Mr. WASHBURNE. Thank you.

Chairman ROYCE. Well, thank you, and without objection I would just like to submit for the record a statement by Elizabeth Littlefield, the former president and CEO of OPIC under the Obama administration in support of this proposal, Reform and Modernize America's Development Finance Toolkit.

And also I would like to submit for the record a statement of support from the White House also for Subcommittee Chairman Yoho's legislation here, the H.R. 5105, the BUILD Act.

Without objection.

Chairman ROYCE. And we go now to Mr. Ami Bera.

Mr. BERA. Thank you, Mr. Chairman.

Mr. Washburne, what you have been able to accomplish is pretty miraculous. The White House, Obama administration officials, Mr. Sherman, a broad consensus, House and Senate all supporting something. So maybe this is a beginning of a new era in Congress and in Washington, DC.

If not, it's a testimony to the importance of OPIC and the belief that the United States has to be engaged globally in a smart way,

that we have to be looking at modernizing our ability to invest and compete around the world, again, in a smart way.

One thing that you touched on in one of your comments with the modernization—with the BUILD Act was the ability to give OPIC equity authority versus just debt investment.

If you could expand on the limitations that OPIC currently has as well as with modernization, the ability to do equity authority—how that would benefit us.

Mr. WASHBURNE. Sure. Well, what the equity authority does is today we just give a debt instrument on a loan, which gives us senior status to all the other debt.

If a project was to have issues with it, the equity gets wiped out and goes away, and that's fine and we can continue doing that.

The problem is where the world has gone is we've lowered, in many instances, the leverage we give on a project to not that much debt, maybe 50 percent debt or less, and the equity portion goes in.

But other countries won't go in that if they think the United States has a superior position to them.

And so we need the ability to put a portion, and we are talking about club deals where you go in together with other countries.

In some instances, some we'll do on our own, When we are able to compete more effectively on the worldwide scale that these other countries are going into.

For example, in Japan when I signed the MOU in Tokyo last fall, the Japanese wanted to co-invest with us in projects but they don't want to do it where we are senior to them.

And so we signed an MOU that we are going to look at projects where we can do it on a collaborative basis. On the debt side, if this legislation goes through we'll be able to also do a portion of it on the equity side.

And the British have had equity authority since 1948, and we are the last country, kind of the hold out that hasn't done it.

Mr. BERA. So, again, this would be an important tool——

Mr. WASHBURNE. Absolutely.

Mr. BERA [continuing]. To modernize things. You also touched on—as you were highlighting some of the port deals and so forth, if I heard correctly, OPIC has a limit at $500 million. Is that what——

Mr. WASHBURNE. Well, currently, per project.

Mr. BERA. Right. And in the BUILD Act would you be given greater authority?

Mr. WASHBURNE. Yes, sir. It would. I don't know the exact number it would be. It would be larger, yes.

Mr. BERA. And raising that and giving you that ability as we look at the Chinese model and how China's investing, will it give us a competitive advantage or at least a better advantage to——

Mr. WASHBURNE. Well, again, the Chinese are putting in sometimes 100 percent of the debt on projects. We'll keep our cap at, on an extreme basis, at 75 percent.

So there's still a large amount of equity in there. That's why the default rate is so low with OPIC. There's so much equity in projects behind us that we just back reputable developers and project sponsors that we haven't had an issue.

Mr. BERA. What is the default rate?

Mr. WASHBURNE. What?

Mr. BERA. What is the——

Mr. WASHBURNE. The default rate? As I understand it, since OPIC's inception, 1 percent.

Mr. BERA. That's pretty remarkable.

Mr. WASHBURNE. Yes, and OPIC's made a profit for 40 years in a row, including last year. OPIC made a profit of $260 million. But we call that deficit reduction. We give it back to you.

Mr. BERA. Absolutely. Which certainly is a good thing. So and for the taxpayers that is a good deal as well. So, again, relatively noncontroversial, and I want to thank my colleague, Mr. Yoho, for his leadership on this and, again, this is the type of thing that we ought to be able to get done in Congress. So I thank you.

Mr. WASHBURNE. Thank you, sir.

Mr. BERA. With that, I yield back.

Chairman ROYCE. We go to Mr. Dana Rohrabacher of California.

Mr. ROHRABACHER. Thank you very much.

First and foremost, I want to make sure that people understand that these micro loans that we just touched on, how important they are to establishing to the people of the world that we are not just on the side of the big guys.

We are not just going in and making friends with the rich people who control their societies. Countries like Cambodia, where—which was mentioned, where you have basically a criminal regime headed by Hun Sen, who was—basically held power with brute force and corruption—these micro loans do—give people the sense of optimism that they can improve their lives and thus resist tyranny.

So I would like to make sure that that's clearly on the record and I would imagine you agree with that?

Mr. WASHBURNE. Yes, sir.

Mr. ROHRABACHER. Okay. Let me ask you this. OPIC, over the years, has OPIC ever lost money, and you might describe the situation where it has, if it has—lost money where they have guaranteed a loan to a business idea that didn't work out and thus the taxpayers didn't get paid back?

Mr. WASHBURNE. Well, I haven't seen the records for the entire history of OPIC. Since I've been here in August we haven't.

Mr. ROHRABACHER. You haven't? Okay.

Mr. WASHBURNE. We haven't. Sir, I am happy for our staff to get with you and give you a complete list of all the transactions——

Mr. ROHRABACHER. I think I would like to have that list——

Mr. WASHBURNE. Yes, sir.

Mr. ROHRABACHER [continuing]. If you could have one of your staff, because the second part of that question is, now, as I would assume that the way we've set this up that there have been situations where a private loan that was guaranteed by OPIC didn't pan out and that the money was lost and thus the American taxpayers were guaranteeing the loan and thus we had to pay for it.

The question then is has there ever been a bank that lost any money once the OPIC has guaranteed a loan?

Mr. WASHBURNE. Sir, I would have to get my staff with you to give you those details.

Mr. ROHRABACHER. Well, what I would like to know is the procedure that you use, does it put the bank that is the partner—basically, we are ensuring that the bank will either break even or make a profit.

Is there any risk that a business that receives this kind of a benefit is having to make in order to receive that benefit?

Mr. WASHBURNE. If we give a guarantee to a bank, we will give them a guarantee on the principal, not on the interest.

So if a project was to go bad, again, these are real asset properties. These aren't a software development company or something to where—I mean, it's a hard asset. So a hard asset doesn't go to zero.

And so since we've been a senior lender we have got an underlying asset for—to collect upon. Typically, there's 25 percent skin in the game, as I said, with the equity side of the equation and that money gets lost. So if we did a——

Mr. ROHRABACHER. So the bank actually—if something goes wrong—we miscalculated, we are trying to help some people but they don't succeed, the bank actually loses money as well as the taxpayer?

Mr. WASHBURNE. No. No, not——

Mr. ROHRABACHER. No.

Mr. WASHBURNE. So, I just want to clarify. So on a typical deal, if we put in 75 percent debt and there's 25 percent equity, of the 75 percent debt the bank is at risk for 25 of that 75 percent.

Mr. ROHRABACHER. So the bank——

Mr. WASHBURNE. So they would lose 25—if $1 is lost, the equity to the private developer——

Mr. ROHRABACHER. Okay.

Mr. WASHBURNE [continuing]. Gets totally wiped out and then every lost dollar after that is 75 from OPIC, 25——

Mr. ROHRABACHER. So there is some risk that these——

Mr. WASHBURNE. Oh, absolutely. Absolutely.

Mr. ROHRABACHER. We are not just guaranteeing a profit and no loss so——

Mr. WASHBURNE. For example, we recently did a deal in Costa Rica for small business lending with a large U.S. commercial bank. We put in $50 million. They put in 25 percent of that and then the local bank put in the equity of that.

So if there was a loss on a loan, the local bank gets their equity wiped out and, once again, OPIC would lose 75 percent and the partner institution in the U.S. would lose 25 percent.

Mr. ROHRABACHER. Thanks for clarifying that, and just one note—that the Chinese are deeply involved, as we've already heard, throughout the developing world and quite often they rely on bribes and on making sweetheart deals with government officials in countries that are not really all that democratic.

So that's something that we—if that's our competition, we have to understand that and we do not want the Chinese to have this outreach and actually beginning to have that type of global influence.

It is a negative influence on the world, and so we wish you luck in your restructuring and hope we can work together in the future,

even though Ed Royce, who's put his heart and soul into this all of these years, isn't going to be with us.

We'll carry on, Ed. Thank you very much.

Mr. WASHBURNE. Thank you, sir.

Chairman ROYCE. Thank you. We go now to Mr. Greg Meeks of New York.

Mr. MEEKS. Thank you, Mr. Chairman. Mr. Washburne, welcome.

Mr. WASHBURNE. Thank you.

Mr. MEEKS. Now I just want to say offhand I really have, for the most part, believed that OPIC does excellent work and this propose of the Development Finance Corporation I assume is presumably to provide loans and grants and guarantees to businesses that commercial banks won't or can't support, right? That's basically what it's going to do. It gives people there an opportunity.

But I want to be sure that those efforts extend to—I am always concerned about diversity and that there's diversity in lending and everybody has an opportunity.

So my first question is well, is how well did DFC work continue with existing—will it continue to work with existing U.S. programs to complement traditional assistance and encourage diversity in its partnerships?

Because oftentimes when I go to certain communities, there's no diversity or they want to make sure they have the opportunity to be included in some of the lending and investment opportunities.

So have you thought about how you'd make sure that there are diverse loans that are there?

Mr. WASHBURNE. Are you saying with U.S. companies for——

Mr. MEEKS. Yes.

Mr. WASHBURNE. Yes. Well, a big part of my job is being an outward-facing CEO and going and meeting with new potential people. Only 8 percent of our loans are with Fortune 500 companies.

So we have 675 projects in 90 countries. So we have a very diverse and open marketing apparatus. We have—we use the U.S. Commerce Department to help market us as well with this new legislation. USAID and their field offices are going to help drive this business.

Mr. MEEKS. So I just want to make sure, because we know there's a lot of minority and women-owned businesses that are looking to invest abroad.

Mr. WASHBURNE. Sure.

Mr. MEEKS. And I want to make sure that they have a clear opportunity and whether or not there will be specific policies within the new DFC that—you know, strong outreach to women and to minorities so that they know that you exist and that they know what their opportunities are because they are looking to do it and oftentimes they don't know the opportunities that are there.

Mr. WASHBURNE. Yes, sir. Well, the first person I hired when I came to OPIC is a lady that set up a women's initiative area within OPIC. We committed $350 million from OPIC, which will catalyse $1 billion of investment. I am going to Lima this afternoon and tomorrow we are having a large press conference to announce this.

It's called the 2X Initiative and is an example—I spoke earlier on that small business loan deal we did in Costa Rica. We required

of that loan that 20 percent had to go to women-owned businesses. And so we've not only talked about it, we've put real money to work.

Mr. MEEKS. And on the flip side of that, I know that generally OPIC had been very conservative, which meant that many of the poorest countries were not included in the investment portfolio. So I didn't see as many investments in some of the poorer countries and I was wondering if not—if you could now with this new DFC there would be further investment in some of the poorest communities like on the continent of Africa.

Mr. WASHBURNE. Sir, I think we have projects in almost every country in Africa and I am happy to submit to you where our projects are located and a map to show where they are. We are open in 130 countries.

We are active in 90 countries. We are closed in the high-income countries or Communist countries. We are throughout Africa. In fact, I had a team over there a couple weeks ago. I am going myself this summer for 2 weeks and we are marking ourselves heavily there.

As you know, OPIC was one of the leads of Electrify Africa and——

Mr. MEEKS. Absolutely, and I want to be assured that that will continue.

Mr. WASHBURNE. Oh, absolutely.

Mr. MEEKS. Yes.

Mr. WASHBURNE. When we look at——

Mr. MEEKS. So let me ask this. I don't know whether this does anything or not. I know that under the BUILD Act it proposes that the DFC have equity authority, right, so too, that I know OPIC doesn't currently have, and I was just scratching my head.

Why is equity authority important and how would that change the way that DFC approaches investments?

Mr. WASHBURNE. OPIC was set up in 1971 and the tools under which we loan to and invest with are pretty much the same as they were then. The world has changed a lot since then and what equity authority enables us to do is partner up with other countries such as England and Germany.

Every other country that has a DFI has equity authority and we are able then to participate in a lot more projects and a lot more deals.

Currently, by just having a debt instrument we are left out of a lot of things.

Mr. MEEKS. My time is up. Thank you very much.

Chairman ROYCE. Thank you, Mr. Meeks.

We go now to Mr. Ted Poe of Texas.

Mr. POE. Thank you, Mr. Chairman.

Thank you, Mr. Washburne, for being here. I also want to recognize Mr. Mosbacher, who's in the audience today, and thank him for all of his work that he's done in this area.

In 2016, Congress unanimously adopted my bill, the Foreign Aid Transparency And Accountability Act basically to strengthen accountability of development agencies—mainly, reporting short verse—it's an audit of our foreign aid, foreign assistance, things we do in foreign countries.

How are you ensuring accountability of OPIC to American taxpayers?

Mr. WASHBURNE. Well, sir, part of this bill is going to be funding for an inspector general to come in. So we, fortunately, have had very tough underwriting and this is going to ensure as we go forward that the concerns you might have are going to be covered.

Mr. POE. I noticed that was in the bill. I just wanted to hear it orally that that's a concern of yours and you're going to make sure the American public knows how the money is being spent?

Mr. WASHBURNE. Yes, sir.

Mr. POE. That's the purpose of the Foreign Aid Transparency Act. Tell me what your feelings are, opinion, and how Ex-Im Bank plays into all of this.

Mr. WASHBURNE. Well, I can't really speak to Ex-Im because it's a domestic oriented institution. We are, as you know, totally international and we can't do anything in the United States or its territories. So——

Mr. POE. But can you give me your opinion of the Ex-Im Bank?

Mr. WASHBURNE. I haven't studied it, sir. [Laughter.]

Mr. POE. What a great answer.

Mr. WASHBURNE. This is my day job. So I can't speak to that. I am sorry.

Mr. POE. I am a supporter of the Ex-Im Bank and it's been stonewalled over in the Senate because the Senate refuses to appoint commissioners so that it can do what I think is a good—beneficial not only to America but other entities across the globe as well.

What role does China play in financing similar entities and their government in dealing with foreign countries? What is China doing?

Mr. WASHBURNE. Well, they have the China Investment Corporation, or CIC, and they've committed several trillion dollars to—that's their main investment entity and that's what we come up against and every country I travel to you get off the plane and China—I was in—like last summer in Zambia and you get off. The airport is a Chinese airport being developed by the Chinese. You drive through town, they've just built a soccer stadium and given it to the government.

And so it's a coordinated effort by the Chinese. As I said in my opening statement, they want to tie together 65 percent of the world's population in their Belt-Road Initiative, from China all the way around through the Suez Canal.

Mr. POE. And they use Chinese workers when they build all these projects. They bring in all the Chinese. Locals don't build these projects. No matter where it is, it's Chinese workers come in and develop, build, construct, maintain all of these projects.

Mr. WASHBURNE. And even a country like the country of Georgia, which has a port. If you look at the Belt and Road as it goes all the way to England, that's a key logistic point for the Chinese and the Georgian Government has come to us, said, will you help us finance the logistics port so the Chinese don't do it? Otherwise the Chinese are going to do it, and that's a key, and you think the country of Georgia, how would that have anything to do with the Belt and Road? That is a key point for distribution.

So we can't match them dollar for dollar nor do we desire to match them dollar for dollar because they do a lot of things that don't make any economic sense whatsoever. But we could back projects that are strategic to the United States.

Mr. POE. Once again, I want to thank you for what you do. I believe this OPIC is a—not only a financial entity that works good for America and other countries but it's a diplomatic positive for us in foreign countries, and I know this is going to shock the chairman but I am going to yield back a minute to the chair. [Laughter.]

Chairman ROYCE. I thank your Honor. Thank you, Judge.

We go to Albio Sires of New Jersey.

Mr. SIRES. Thank you, Chairman.

Mr. Washburne, thank you for being here. Thank you for helping us pay the debt that we owe—for the money you return to the Treasury—just a little bit.

I have a couple of concerns and I am glad you're reorganizing and I think it's the right thing to do, and you're focusing on the Western Hemisphere, which is one of the committees that I serve on.

How does this political risk insurance work with some of these countries? I am thinking in terms of Venezuela. You know, they've been just atrocious.

Did we ever have any investment there or anything like that in the past?

Mr. WASHBURNE. No, sir. We are closed in Venezuela and have been for years. We don't have any projects there nor are we allowed to even look at projects there.

Mr. SIRES. Okay. And in terms of—we just had island hit very badly by these hurricanes. U.S. Virgin Islands, Puerto Rico, St. Thomas.

Mr. WASHBURNE. Yes, sir.

Mr. SIRES. Are you making any effort to partner up with the private sector to see if we can help or just some of the projects to assist these islands? Because they really are a mess and I know that they don't have a lot of equity to put forward in some of these places when you do this partnership.

Mr. WASHBURNE. We are closed in U.S. territories so I can't go to Puerto Rico. But we committed $1 billion to the Caribbean region, whether Dominican Republic, a lot of the islands throughout there, and we are working on multiple projects right now, primarily infrastructure—power grids, ports, upgrading airports.

Mr. SIRES. That's what I was thinking in terms of some of these islands that got hit so hard.

Mr. WASHBURNE. Yes. And the interesting thing is very little money goes a very long way in a lot of those islands. But we are very actively—obviously, we are not open in Cuba or Venezuela but everything else through that region we are very actively engaged.

Mr. SIRES. So, in other words, Puerto Rico is out of the question?

Mr. WASHBURNE. Yes, sir. It's a U.S. territory.

Mr. SIRES. So the U.S. Virgin Islands also?

Mr. WASHBURNE. That's out. St. Croix is out.

Mr. SIRES. St. Croix.

Mr. WASHBURNE. You know, the Solomon—anything that's a U.S. territory.

Mr. SIRES. Is there any way in your new reorganization that you can try to include some of these places that got hit so hard by the hurricanes?

Mr. WASHBURNE. Sir, this is an international—that's not in the legislation currently. And if that's something the committee wanted to change—but that's not what OPIC was for. There are other aid programs that feed to the domestic issues.

Mr. SIRES. No, I mean, I just——

Mr. WASHBURNE. And I will tell you, we did look at the Puerto Rico issue when that hit. Obviously, we got a lot of calls and our staff looked at it and we just can't participate in there.

Mr. SIRES. Totally?

Mr. WASHBURNE. At all. Yes. Yes, sir.

Mr. SIRES. And this political risk insurance, can you go over that again for me? How does this work?

Mr. WASHBURNE. Okay. Well, sometimes we just do the political risk insurance. We don't even do a loan. But if a company is going to build a project, for example, like a power project in Vietnam, which is a Communist government but they've got democratic reforms, we are trying to get them away from the Chinese.

We gave them a political risk insurance which meant we get a contract that we guarantee will be honored and then we go to the Vietnamese Government and we get a counter party that, if they sell electricity produced by an LNG plant into the Vietnamese grid, they don't change contract terms.

They don't nationalize it, expropriate it, and those things. And the governments know that it's the U.S. Government with an insurance policy on that and that's why we had a very low default rate because people realized it's actually the U.S. Government they're changing the contract terms on.

Mr. SIRES. Okay. Chairman, I am also finished. Thank you very much.

Chairman ROYCE. Thank you for yielding back.

Mr. Tom Garrett of Virginia.

Mr. GARRETT. Thank you, Mr. Chairman, and thanks to the committee and specifically Member Yoho as well as Mr. Washburne and the administration for advancing this initiative.

A moment ago you said, and I quote verbatim, "The Chinese do a lot of things that don't make any economic sense." I agree. Would you submit that they make strategic sense?

Mr. WASHBURNE. I would.

Mr. GARRETT. And so if the Chinese are not dumb, and they're not, and they're doing things that don't make economic sense with lots and lots of money, would it seem then logical to presume that they're doing them in order to advance a strategic agenda?

Mr. WASHBURNE. Well, they could do things like build a soccer stadium in Zambia that makes no economic sense and then just give it away. So——

Mr. GARRETT. Right. But they might do that to curry favor with the regime in Zambia, for example, and that would be then advancing their strategic agenda, correct?

Mr. WASHBURNE. That's correct.

Mr. GARRETT. Okay, and I am not trying to be hostile. I think what you're doing is great and I think you're doing it well.

But I've pointed out in this committee before that there seem to be two paradigms in the patterns of foreign aid. The Chinese tend to give aid to dictatorial regimes and autocrats—for example, building entire Presidential palaces that rival in size and scope, say, for example, the Rayburn Office Building with Chinese dollars and then giving them to foreign autocrats, versus the United States, which renders aid in the form of clean water and food to people, right?

There's aid to the top and aid to the people, and I would submit that the American paradigm works only when the people exist in a nation wherein the people have the ability and the right to assert themselves, and where that is the case that indeed the American paradigm is superior to the Chinese paradigm. We get more bang for the buck. We generate more good will.

I will tell you that as a soldier deployed in uniform every pack of M&Ms I pulled out of my MRE went to a young person in that nation where I was deployed so that the memory that they had would be of an American soldier giving them a pack of candy that they might not otherwise have the opportunity to enjoy ever.

And I hoped at the time, as a 20-something, that that might foster good will amongst these young people toward our nation, moving forward. The Chinese paradigm is give their dad $1.

But I am not going down this road wantonly. I would submit that this legislation and the bipartisan nature thereof should—and I think it was Dr. Bera who said serve as a wake-up call or maybe a new beginning that when Vandenberg suggested that politics should stop at the water's edge, all too often in this committee and in Homeland Security—I understand it Education and Workforce where I also sit—I've seen partisan sniping by this side taking shots at policies from the previous administration and by that side taking shots at this administration, which don't serve to advance the American nation's best interest at home or abroad and it makes me want to pull my hair out—that we should get back to that Vandenberg concept that politics should stop at the water's edge because we are so darn far behind here that I wonder if we can catch up.

And I am not trying to lecture you, but this needs to be said. Maybe somebody somewhere will watch it and take it to heart. An American prominent political philosopher recently stated publicly that there were inherent advantages to the autocratic regime in China by virtue of their ability to act decisively without debate.

Now, as someone who is absolutely passionately in love with the idea of the American experiment—that individuals should have the rights to make decisions for themselves—that the best interests of the collective is advanced best by empowering the individual—I loathe the idea that that person might have been right.

But to the extent that we can all get behind something that makes more efficient private investment in foreign nations in a manner such to create alliances and strengthen trade partnerships, to advance not only the interests of the United States but a free—and those who aspire to be free across the planet, it's about time.

So thank you for what you're doing. My genuine and sincere thanks to my colleagues on the other side of the dais. We need to work together to get this sort of thing right because we are being

lapped by people who do not have the best interest in freedom and self-determination at their hearts.

I would yield back.

Chairman ROYCE. We thank the gentleman for yielding.

Karen Bass of California.

Ms. BASS. Thank you, Mr. Chair, and once again thank you for your leadership in bringing a bipartisan bill that I think is really going to make a difference and I also want to thank Representative Yoho for your leadership on this bill.

Mr. Washburne, I appreciated our conversation yesterday and welcome you to OPIC. Excited that you're there and very excited by this initiative.

I raised a couple of concerns with you yesterday that I think were probably in reference to a much earlier version of the bill and know that I've had time to look at it, very excited about it.

So I want to ask you in terms of moving forward in the future, I know one of the things that you were saying yesterday that you thought was going to be helpful was the fact that the DFI would not have staff around the world but you could take advantage of staff that were already there from USAID or in Embassies.

So if you look at what the British are doing, which they call their DFI CDC, they do have staff around the world.

So thinking out in the future, do you see the need for that? Would you want to come back to us and ask for that type of support? How do you think will develop in the future?

Mr. WASHBURNE. Well, we want to use the USAID staff and we also use a lot of the Commerce Department. They have staff in almost every Embassy around the country for their purposes and through a joint marketing we have been very successful with them.

When I was recently in the Ukraine we went and marketed to a number of companies there—U.S. companies that were there through the Commerce Department's embeds into the Embassy—their Commerce Department.

Ms. BASS. So you see that model being stagnant? You don't see it growing?

Mr. WASHBURNE. Oh, I see it growing. It's a big education process. With this modernization of it, going forward, I am with the State Department.

We, obviously, interface with them on a daily basis about countries we are going to, what's strategic, where should we stay out of, where we need to be cautious. So yes, ma'am, and I also checked. Yesterday you asked on the African Women's Entrepreneurship Program.

Ms. BASS. Yes. Yes. I was going to ask you about that.

Mr. WASHBURNE. And it's a State Department grant program, and one that is going to continue working under OPIC and State can contact us with women entrepreneurs and through that program we can give them financing through OPIC. So that is——

Ms. BASS. So it stays in USAID?

Mr. WASHBURNE. Stays, but we provide the capital for them.

Ms. BASS. Right. Okay. Good. Good. Good.

Mr. WASHBURNE. Yes, I went and checked on that for you, and on the African trade hubs——

Ms. BASS. Before you move onto that, at AWEP then if you would be providing the financing, I would think that AWEP would be able to expand then. Is that correct?

Mr. WASHBURNE. Oh, absolutely. Yes.

Ms. BASS. You would be adding much more resources than currently exist.

Mr. WASHBURNE. Right. And the head of our 2X Women's Initiative I talked to her yesterday and she's actually going to Lima with us today and when she gets back that's the top of her agenda.

Ms. BASS. Great. Great. I appreciate that. And you were going to reference the trade hubs.

Mr. WASHBURNE. Oh, you asked about the trade hubs.

Ms. BASS. Uh-huh.

Mr. WASHBURNE. We see them as rainmaking deals for us in these areas.

Ms. BASS. So how do you think you would specifically collaborate with them?

Mr. WASHBURNE. Well, no. It's just market. They just could submit us ideas and things that we market off of.

Ms. BASS. Okay. We probably, at another point, should talk a little more about that.

Mr. WASHBURNE. Absolutely.

Ms. BASS. Because I think that there have been improvements in the trade hubs.

Mr. WASHBURNE. Right.

Ms. BASS. There's definitely the need to have more trade hubs on the continent of Africa. But how successful they are and how that collaboration—I think it could be very beneficial but we probably—it probably deserves deeper conversation.

Mr. WASHBURNE. Good. Okay. Thank you.

Ms. BASS. Thank you. I yield back, Mr. Chairman.

Mr. CONNOLLY. Would my friend yield?

Ms. BASS. Oh. Be happy to yield to you, Mr. Connolly.

Mr. CONNOLLY. Because I am going to be brief. Thank you so much.

First of all, Mr. Chairman, I would ask that an opinion piece on the development credit authority published in the devex.com be entered into the record.

Chairman ROYCE. Without objection.

Mr. CONNOLLY. I thank the chair. Have you seen this op-ed piece by a former aide to Administrator Natsios raising some concerns about including the USAID piece in a superannuated DFI and that it would, they claim, would hurt USAID's ability to finance longer-term development projects?

Mr. WASHBURNE. Sir, I haven't seen the article but Administrator Green is in full support of this and——

Mr. CONNOLLY. Yes, but that's not my question. I am trying to get at the substance of it. Do they have a point that potentially this could hurt USAID's capacity without intending to and have you taken that into consideration?

Mr. WASHBURNE. From the legislation that's been presented to us, which USAID has given its approval to. I don't understand what the issue would be.

Mr. CONNOLLY. Would you be willing to talk to former USAID Republican Administrator Natsios on this matter?

Mr. WASHBURNE. I would be happy to speak with him. Sure. He has never reached out to me. I have not seen that article. But I wish he had contacted me before he wrote it.

Mr. CONNOLLY. We'll make it available.

Mr. WASHBURNE. Okay. Thank you.

Mr. CONNOLLY. I thank you. Thank you to my colleague.

Chairman ROYCE. Would the gentleman yield?

Mr. CONNOLLY. Of course.

Chairman ROYCE. And an earlier debate here we had some of the discussions about the linkages to make sure that we guaranteed the expertise and involvement of those men and women on the ground.

It probably would behoove us to, as the bill moves forward, define that a little more precisely. And so in keeping with the gentleman's point we'd be happy to work with you in order to strengthen and guarantee that symbiotic relationship there and the use of that personnel and experience on the ground.

Mr. CONNOLLY. Mr. Chairman, I thank you so much for that because that's the only point I am trying to make. There can be unintended consequences and let's make sure there aren't.

Chairman ROYCE. Precisely.

Mr. CONNOLLY. And certainly Mr. Natsios has some gravity in this matter that should be considered and why he didn't reach out to Mr. Washburne I don't know. But we can fix that.

Chairman ROYCE. In his own way I think he did. [Laughter.]

Mr. CONNOLLY. That's right. I thank the chair.

Chairman ROYCE. Thank you.

We go now to Joe Wilson of South Carolina.

Mr. WILSON. And thank you very much, Mr. Chairman, and thank you, Chairman Ed Royce, for your long-term commitment to the Overseas Private Investment Corporation.

The chairman has been an OPIC cheerleader for a number of years, understanding how important what you're doing. And Mr. Washburne, your background is just, in my view, perfect, fulfilling something that I really respect—that President Trump has appointed people of great talent to serve. So thank you very, very much, and I we all look forward in a bipartisan manner to working together with you.

OPIC has a dual mandate to support development while advancing America's foreign policy and interest. How does it balance with these priorities?

Mr. WASHBURNE. With our foreign policy objectives?

Mr. WILSON. Yes.

Mr. WASHBURNE. Well, it's a tool of foreign policy in the sense that countries are regions that the U.S. Government would like to prop up through free enterprise and I will give you an example. In the Northern Triangle of Central America where there's a very, very high unemployment rate we've been tasked with finding companies that can go down there and create employment to help stabilize those regions.

And so a big part of our mandate is how do we create employment in those regions.

Mr. WILSON. And I wish you well. I, last summer, had the opportunity for the Food for the Hungry program to visit Guatemala.

Mr. WASHBURNE. Right.

Mr. WILSON. And it was exciting to me to see the level of economic development that was very clear in Guatemala City and then needed in the more rural areas.

So what you're doing is making a difference. How does the dual mandate compare to other Development Finance Institutions including China's development finance model and should support or preference for U.S. jobs and commercial interests be an explicit mandate in the new Development Finance Institutions?

Mr. WASHBURNE. Well, the Chinese strategic goal is the Belt and Road Initiative and also worldwide trade. So they have gotten into the Western Hemisphere through the Panama Canal.

They're trying to control, as I said earlier, through a lot of the ports and things like that so they can open trade passages for their ships. So we are very cognizant on where they are. I've signed an MOU with the Australian Government recently when their prime minister was in DC to where we are going to work with the Australians and the Japanese on trying to strengthen the outer islands outside of Australia on things they need, like undersea cables to get communication going—that the Chinese are trying to control that.

And so, like I said earlier, we can't match them dollar for dollar but we can strategically find some places to——

Mr. WILSON. Well, it's really making a difference and we all appreciate that. What opportunities for cooperation exist between OPIC and foreign DFIs to address common development goals?

Under your leadership, OPIC has signed memorandums of understanding with Japan and Kazakhstan to support development finance cooperation.

Does OPIC have other similar agreements or plans for additional cooperation with foreign DFIs?

Mr. WASHBURNE. Well, we also have one with Australia, as I mentioned. We are currently working on one with India to where Japan, Australia, India, and the United States will combine forces in that Indo-Pacific region and try to share in projects we can do together and intelligence that we can find projects to go into.

As far as other DFIs, each country has specific regions or areas they're interested in. A lot of them are interested in Africa and OPIC was the leader on the Power Africa initiative.

We've invested over $2.5 billion to help electrify Africa and other countries look for us to be the lead. They're smaller. A lot of them are organized together and they would like to invest together and that's why the equity authority is so important to us because a lot of them invest is equity, not through debt.

Mr. WILSON. And I am grateful to hear about the working relationship with India. I am very grateful that I have worked very closely with Chairman Ed Royce, who was the former chairman of the Caucus of India and Indian-Americans and I followed him and the opportunities that we have with Prime Minister Narendra Modi are just so positive. So this is really very good news.

You pride yourself on a self-sustaining agency which returns funds to the Treasury every year. Will the new DFI also be expected to make returns to taxpayers?

Mr. WASHBURNE. Yes, sir.

Mr. WILSON. And that's good. In fact, that is so good I yield back my time. You were very clear. [Laughter.]

We are not used to people being this clear. Thank you very much.

Mr. WASHBURNE. Yes.

Chairman ROYCE. We go now to Norma Torres of California.

Ms. TORRES. Thank you, Mr. Chairman.

Mr. Washburne, thank you for all the work that you're doing. I have very focused my work in the Western Hemisphere, specifically I co-lead the Central America Caucus. It's a bipartisan caucus that has been focused on the Northern Triangle.

I understand that OPIC has an active project in Guatemala involving Banrural—a rural development bank linked to the Government of Guatemala.

Unfortunately, there's been accusations of public corruption. Are you aware of these allegations?

Mr. WASHBURNE. You know, Citibank is the lead on that particular loan. I don't have the minute details of that. But OPIC's loan is through Citibank and they're the ones managing that relationship and that's the only project we have.

Ms. TORRES. My question is, sir, are you aware of these allegations of public corruption.

Mr. WASHBURNE. Well, there's a lot of corruption in Guatemala.

Ms. TORRES. That is not my question, sir.

Mr. WASHBURNE. Right. On that particular deal, I don't have the specifics. No, ma'am.

Ms. TORRES. So what is it that you do to ensure that you are not working and that American dollars—taxpayers' dollars are not going to corrupt individuals, the drug cartels, the people that are harming—the people that are making their way north to our southern border are the people that we are trying to help in trying to address the root causes of migration, which is a primary objective of this administration?

Mr. WASHBURNE. Well, when I first started at OPIC I was asked to focus on the Northern Triangle where OPIC had not had a focus in a long, long time.

Ms. TORRES. I appreciate that.

Mr. WASHBURNE. And so in El Salvador, Honduras, Guatemala—I took a trip there. My teams have been down there multiple times looking for projects we can do to help the people on the ground.

Electrification, transportation—as you know, in Guatemala—it's very difficult to drive anywhere with the mountainous roads. We try to go in with ag businesses where they can get the agriculture out of the mountains and to the ports. The ports are very undersized, and we realize the immigration issue but we feel with creating opportunities of employment in those countries that'll stabilize those countries.

Ms. TORRES. I wholeheartedly agree with you, sir. The issue is because there is so much public corruption opportunities for American business to thrive there when they're having to compete with

other local organizations that may be having to pay off a corrupt government official I want to know what steps are you taking to work with the attorney generals in this region, with CICIG specifically, to ensure that the folks that you are trying to help are not the ones that are hurting our American agenda.

Mr. WASHBURNE. Well, the businesses that we back to go in those countries are very well vetted. We always go in with a U.S. partner like a Citibank or someone like that goes through their own anti-corruption——

Ms. TORRES. Should my question be addressed then to Citibank to see why, as an American bank—banking institution is doing business with a corrupt organization in Central America? Is that your statement here today?

Mr. WASHBURNE. My statement is we do very intense investigations of the people we do business with as well as the lending institutions we partner with.

Ms. TORRES. What does that look like—an intense investigation?

Mr. WASHBURNE. Well, I am happy for our staff to come over and walk you through exactly how we process a loan, how we monitor a loan, and how we do background checks on who we deal with.

Ms. TORRES. I know that this is an uncomfortable conversation to have and to have publicly, but I need to have some reassurances that while you're working there and we want you to continue to work to create local opportunities for the youth there but at the same time I don't want you to focus and for the work to damage the work that we are doing in trying to address the public corruption issues there by providing opportunities for these corrupt individuals to continue to thrive.

Mr. WASHBURNE. We are very happy to sit down with you and your staff and walk through everything. All our loans are totally transparent. You can go on the web and see who we do business with. And so I am happy to come over anytime and——

Ms. TORRES. Just for the record, Mr. Chairman, since I can't get an answer from our guest here today, does that mean that this is a classified briefing that I need to ask for?

Chairman ROYCE. Congresswoman Torres raises a point, which has to do with a case for which she's seen a press report. We have strong laws on the books in terms of, well, the Foreign Corrupt Practices Act and other laws which should guarantee that we do not have a situation where U.S. agencies are engaged with financial interests overseas.

A cartel is what you refer to. There are also laws on the books that prevent the engagement here in terms of involvement with foreign governments overseas.

So that being the case, I would suggest, Congresswoman Torres, you and I and the ranking member should meet along with the staff of the agency and we should review this particular case—get to the details and have their investigative people come in and we'll get to the bottom of it.

Ms. TORRES. Thank you, Mr. Chairman. I yield back.

Chairman ROYCE. Very good. We go now to Mr. Mike McCaul of Texas.

Mr. MCCAUL. Thank you, Mr. Chairman.

Ray, good to see you again. We've known each other for quite some time. I want to applaud and commend the President's decision to put you in this position. I can't think of a stronger mind, business leader, and someone with just dogged determination to get things done, and I think you bring a fresh enthusiasm to what was becoming not such a fresh face for us, and it's what we need right now and we need it from a foreign policy standpoint. It's really the soft power piece that complements what our military does around the world.

So, again, I want to thank you. I want to say personally anything we can do to assist your mission we are strongly supportive of you.

My question has to do with—I get two but the first one, China, they are a superpower now. It's hard to compete. As you know, they're in South America. They're in South America. Their model—they have $12.6 billion in loans now. It's also hard to compete with a country that doesn't have any anti sort of corruption practices—laws on them, so they can walk in a room and hand basically a suitcase full of cash. Our guys, we obviously can't do that. We are prohibited by Federal law.

They also offer to build soccer stadiums to get their contracts, to get access into these countries. So I guess my first question is how do you compete with someone when you're on sort of an unlevel playing field from the get-go and they have made great advances and strides in both these continents?

Mr. WASHBURNE. Thank you for your comments, first of all. I appreciate those.

You know, the Chinese—we are not going to match them dollar for dollar and your point of soft power is exactly what OPIC is. It's a soft power agency of foreign policy for the United States.

And so there are certain areas we can go in. If the Chinese are at Port-au-Prince, which I mentioned earlier—they're rebuilding the port there, which gives them control—then as a counteraction we need to find other ports. We should have been the ones in there doing that and we kind of fell asleep at the switch. I don't know why we weren't there.

And so it's more of a strategic play for us because our dollars are very limited. We are not an aid agency. We are a business agency, and I have to underwrite projects that businesses believe will make a profit and come back because they have so much equity in them.

So building a soccer stadium obviously serves no purpose. Building a port like in Sri Lanka that made no sense to begin with, we can't find a developer to do that and we are not an aid agency. So we are very strategic on where we go and what we are investing in.

Mr. MCCAUL. Right. I think Djibouti is another example where we actually have a military post there and they're there as well. I think one argument that always plays against them though are these countries that they move into, it doesn't benefit the host country, at the end of the day. They may have shiny objects they can wave in front of them but they really don't invest in the wellbeing of the country's health overall.

In fact, they bring in their own workers many times and it brings no real, I think, assets to the host country itself.

And so, hopefully, over time countries in Africa and South America will see that and they'll turn away from that competition.

Secondly, I think—maybe Mr. Yoho had maybe asked you this question—but I co-sponsored his BUILD Act, which creates a U.S. international Development Finance Corporation and it really helps leverage all the loans that you have with OPIC and USAID's development credit authority. Are you supportive of this? I know it was in the President's budget as well.

Mr. WASHBURNE. I am supportive and Administrator Mark Green is supportive of it. The White House—we gave them a letter last night. They're in support. In fact, USAID and I met and so, yes, I am supportive of it.

Mr. MCCAUL. And just to close, I mean, I think, again, your enthusiasm is welcome here. You're going to do a great job and OPIC has a great story to tell because a lot of—most of it, it can bring billions of dollars of investment yet with almost—with not a whole lot of appropriations from Congress.

And so a lot of it is primarily self-funded and I think we should be taking greater advantage of OPIC's reach and authorities throughout the globe to advance the United States' interests abroad.

When we have such a complex world right now with Russia and China being expansive and with Iran and North Korea and so many hot spots, I really applaud your leadership, sir, and I look forward to working with you.

With that, I yield back.

Mr. WASHBURNE. Thank you.

Chairman ROYCE. I thank the gentleman for yielding back.

I want to thank Mr. Washburne for being here today and for sharing the administration's views on the importance of development finance and how it can be reformed and for your support here today for Subcommittee Chairman Yoho's BUILD Act.

I know you're on your way to the Summit of the Americas. But before you go, I also want to acknowledge Edward Burrier sitting behind you. Edward was the deputy staff director of this committee and one of our closest advisors for many years, and Edward is one of the best.

And while it's a little strange to see him sitting behind the witness and not behind the chairman, I can't imagine anyone better than Edward to be serving you at OPIC and we thank Edward for his work and dedication.

And Mr. Washburne, we wish you all the best in Peru.

The hearing stands adjourned.

[Whereupon, at 11:30 a.m., the committee was adjourned.]

APPENDIX

Material Submitted for the Record

FULL COMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Edward R. Royce (R-CA), Chairman

April 11, 2018

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs to be held in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at http://www.ForeignAffairs.house.gov):

DATE: Wednesday, April 11, 2018

TIME: 10:00 a.m.

SUBJECT: Financing Overseas Development: The Administration's Proposal

WITNESS: The Honorable Ray W. Washburne
President and Chief Executive Officer
Overseas Private Investment Corporation

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF FULL COMMITTEE HEARING

Day *Wednesday* Date *04/11/201* Room *2172*

Starting Time *10:00AM* Ending Time *11:30AM*

Recesses *0* (____to ____) (____to ____) (____to ____) (____to ____) (____to ____) (____to ____)

Presiding Member(s)

Chairman Edward R. Royce

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑
Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING:

Financing Overseas Development: The Administration's Proposal

COMMITTEE MEMBERS PRESENT:

See attached.

NON-COMMITTEE MEMBERS PRESENT:

N/A

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ No ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

IFR - Chairman Edward R. Royce and Representative Gerry Connolly
SFR - Representative Gerry Connolly
QFR - Representative Dina Titus

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *11:30AM*

Full Committee Hearing Coordinator

HOUSE COMMITTEE ON FOREIGN AFFAIRS

FULL COMMITTEE HEARING

PRESENT	*MEMBER*
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X	Christopher H. Smith, NJ
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	Lois Frankel, FL
	Tulsi Gabbard, HI
	Joaquin Castro, TX
X	Robin Kelly, IL
	Brendan Boyle, PA
	Dina Titus, NV
X	Norma Torres, CA
X	Brad Schneider, IL
	Tom Suozzi, NY
	Adriano Espaillat, NY
X	Ted Lieu, CA

MATERIAL SUBMITTED FOR THE RECORD BY THE HONORABLE EDWARD R. ROYCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS

STATEMENTS & RELEASES

Statement from the Press Secretary Supporting the Goals of the Better Utilization of Investments Leading to Development (BUILD) Act of 2018

ECONOMY & JOBS

Issued on: April 10, 2018

★ ★ ★

Tomorrow, the House Committee on Foreign Affairs is scheduled to hold a hearing entitled "Financing Overseas Development: The Administration's Proposal."

The Administration strongly supports the goals of H.R. 5105/S.2463, the "Better Utilization of Investments Leading to Development (BUILD) Act of 2018," to consolidate the Overseas Private Investment Corporation (OPIC) and certain aid programs into a reformed international Development Finance Institution (DFI) that catalyzes market-based private sector development and economic growth in less developed countries to advance the national interests of the United States. Current U.S. development finance tools are outdated and fragmented across multiple Federal agencies, and often are not well coordinated. This has hampered our ability to achieve key U.S. foreign policy and national security objectives and resulted in inefficient use of taxpayer dollars. Reform will catalyze market-based solutions as a clear alternative to state-led financing initiatives that undermine state sovereignty. Reform will also help the United States compete more effectively in this new era of strategic competition.

The legislation is broadly consistent with President Trump's statement at the Asia-Pacific Economic Cooperation forum in November 2017 that committed the United States to reforming its development finance institutions to better incentivize private sector investment in developing countries. The goals of the legislation are also consistent with the President's National Security

Strategy and the Fiscal Year 2019 Budget Request, which proposed the creation of a consolidated, reformed DFI with strong institutional linkages to the Department of State and the United States Agency for International Development (USAID) to enhance America's global competitiveness and help drive economic growth in the developing world.

The Administration looks forward to continuing to work with Congress on H.R.5105/S.2463 as the bills progress through the legislative process. In particular, we believe the bills need to be strengthened to further ensure that the important work of this institution aligns with U.S. national interests and has strong institutional links to the programming of USAID and other development agencies. The bills must also include a revised funding structure for the institution and reforms to better manage risk to the U.S. taxpayer and avoid displacing private sector resources.

MATERIAL SUBMITTED FOR THE RECORD BY THE HONORABLE EDWARD R. ROYCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS

April 6, 2018

The Honorable Representative Ed Royce
Chairman of the House Committee on Foreign Affairs

The Honorable Representative Eliot Engel
Ranking Minority Member of the House Committee on Foreign Affairs

2170 Rayburn House Office Building
Washington, DC 20515

Chairman Royce and Ranking Member Engel:

As former President and CEO of the Overseas Private Investment Corporation (OPIC), I write today to emphatically endorse the proposed creation of a new, standalone development finance institution to advance sustainable economic development and support U.S. foreign policy.

The United States needs such an organization to play the role it can and should play in the global arena. Indeed, it is long overdue.

Twenty years ago, few businesses were willing to invest in low income countries, especially in those sectors that support the human and economic development of those countries. Since then, two profound changes have occurred.

First, OPIC's commercially-driven approach to development has proven that, with appropriate finance and risk mitigation, thriving markets can be prudently tapped in the developing world. In doing so, investments abroad can create jobs and exports at home, and they can help alleviate poverty and create more economically and politically resilient nations abroad. And for 40 years OPIC has financed and insured thousands of these investments while returning money to the Treasury every single year.

Second, the private sector today is proving that successful commercial businesses can be built in sectors like power generation, infrastructure, even health and education - sectors that were once the exclusive domain of concessional finance, aid or government subsidies. The more that responsible private capital can be mobilized to address economic development needs, the more our scarce grant resources can be concentrated on those global challenges that commercial business models cannot address.

American-supported investments that build reliable power, clean water, affordable housing, and that create markets are a tangible, visible and cost-effective tool of US foreign policy. These investments project the best of American leadership and values–

entrepreneurship, self-reliance, rule of law and international cooperation. And it is usually our businesses, their partnership and their investment that countries want most from the United States.

Development finance has been a powerful force in serving our national security interests through, for example, rebuilding infrastructure in Iraq, providing small business loans in Egypt or creating employment for women in Afghanistan. On average, roughly one-third of OPIC's portfolio is in conflict-affected nations. As history has shown, poverty prolongs, exacerbates and, in some cases, causes destabilization and conflict. Sustainable, private sector jobs integrated with local and global markets can be a valuable antidote to that threat. They are a force for stability.

In 2008, for example, water shortages across Jordan were so severe that households in the capital had potable water only a few days per week. By 2014, with the help of OPIC, a 200-mile-long water pipeline had been constructed and was delivering safe water to residents as well as to the Syrian refugee camps in the north. This, in a nation of paramount strategic importance that is within driving distance of ISIS-held territories.

The case has been made that Congress should expand development finance. I believe there is an equally strong case that it *can* do so—prudently, cost-effectively and with a high degree of confidence in success. Having the tools that businesses need under one roof will be an essential element to assuring the most effective and efficient service delivery to those businesses.

During the years of my tenure at OPIC (2010-2017), the agency invested heavily in building the institutional infrastructure to support a broader role in achieving U.S. development goals. This meant building 21st century financial institution equipped with state-of-the-art risk management systems and other systems necessary for prudent origination, underwriting and management of a large portfolio of emerging market risks. The result is a very strong core that is ready to serve as a foundation for a new, scaled up development finance institution.

Mr. Chairman, in sum, this is the right step at the right time. It will advance America's national security aims. It will tap into the dynamism of America's companies and investors. It will project the best of American values. And it will accomplish all of these in an efficient, cost-effective and time-tested way. I urge you to support this initiative.

Respectfully submitted,

Hon. Elizabeth L. Littlefield
Former President and CEO, Overseas Private Investment Corporation

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Opinion: The Development Credit Authority needs to stay in USAID

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A successful auto-garage store owner in Indonesia who benefitted from the Development Credit Authority loans. Photo by: Danumurthi Mahendra / USAID Indonesia

One of the most dependable areas of bipartisan consensus has always been the United States government's support for global development. And now it seems the Trump administration has found agreement with some members of Congress on at least one critical part of the global development agenda: Supporting U.S. commercial engagement in emerging markets.

The White House has unveiled plans to transform the small 250 person Overseas Private Investment Corporation into a more robust global financing platform — what they are calling the "U.S. development finance institution."

The new DFI is envisioned to allow the U.S. government to more forcefully exert commercial influence abroad by taking ownership stakes alongside private sector

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investors, and on the
same terms as other G-8 DFIs. The proposal will permit the U.S. development bank to retain more of its profits, allowing it to grow to meet the demands of the market. And it will equip the new institution with the ability to make small grants and conduct feasibility studies, giving U.S. investors and developers a leg up in challenging foreign markets. To supporters of OPIC, these are all positive moves and will better position the U.S. to counter the growing influence of China and other new actors in emerging markets.

But the planned legislation contains one especially destructive provision that is unnecessary to achieve its broader intent. It calls for the consolidation of the United States Agency for International Development's flagship private sector engagement tool, the Development Credit Authority, into the new DFI. For the past 18 years, DCA has been partnering with local banks to channel local private capital toward U.S. development objectives. Instead of simply granting money directly to agricultural enterprises, for example, USAID uses DCA to prudently share risk with lenders and unlock a sustainable source of local commercial capital as part of broader agricultural sector improvement efforts.

This critical tool has been championed by members of both parties and across five successive USAID administrators. Since its creation in 1999, it has unlocked nearly $5.2 billion of private capital in some of the world's toughest sectors and countries and has transformed the way USAID development professionals think about market-based solutions to poverty.

Having seen the development of the DCA tool and its significant expansion within USAID, we are alarmed by the notion that it should now be stripped from the agency and placed into the new DFI to "increase operational efficiencies" and "reduce redundancy." In our view, doing so will have the exact opposite effect and will greatly reduce USAID's ability to incorporate the private sector into its development work.

To be sure, avoiding duplication of programs across government is essential, but using the same tools across multiple agencies is not the same as duplicating programs. Indeed, DCA is a tool, not a stand-alone program. It is part of a well-coordinated, integrated, and multiyear development strategy. Stripping that tool from USAID will weaken the sustainability of programs without adding anything new to the U.S. Development Bank that the DFI won't already have. Those who argue that the DFI can simply play the role DCA once played for the agency do not appreciate the differences between the tools, their mandates and operational models. Here are just three worth mentioning:

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1. Different missions and metrics

DCA's mandate is to support USAID's development objectives. Any deal it supports is part of a holistic program designed and funded by USAID country missions in consultation with partner governments. OPIC's mandate, on the other hand, is to support specific projects in developing

countries. This is an equally important objective, but it begets a much different operational strategy, skill set, and risk appetite.

2. Different risk-return requirements

Because of its pure development mandate, DCA often supports deals that most development finance institutions try to avoid. DCA's deals tend to be small, higher risk, and more favorable from a pricing perspective. For OPIC, or any future DFI, undertaking too many risky projects and suffering 10 percent losses would be a disaster given it frequently advertises that it makes money. As documented by the Center for Global Development, the result is a lot of DFI capital is provided to middle-income countries. But at USAID, the DCA tool can responsibly risk relatively more capital in the least developed countries since USAID is normally issuing grants, not seeking a market return.

3. Sectoral progress versus projects

A DFI, like OPIC, responds to proposals made by investors. This is a necessary and prudent approach to respond to the needs of market participants. But what if there is no market, or the market needs modernization? What if there are noncommercial improvements needed? Such work is in the realm of development. The extensive effort on agriculture, for example, requires complex development interventions across food systems — only one of which may be an investment of the sort which the DFI will support. USAID uses the DCA tool as an integrated component of broader projects. This is quite different than a DFI project which stands all on its own and is not adjusted as the broader sectoral effort proceeds.

While a number of distinguished leaders support the creation of a DFI, what efficiencies are achieved by moving the tiny, 30-person DCA office out of USAID into the new institution? There are no savings here, only a shift of people from one building to another, a "consolidation" box falsely checked, and a weakened USAID with no ability to attract sustainable funding for projects that are part of larger development efforts. DCA's enthusiastic and bipartisan supporters in Congress are unlikely to allow this to happen. And even if they do for political reasons, the need for the tool is so strong within USAID that we predict it will eventually be recreated inside USAID by some future administration. Let's save the trouble and get this right.

About the authors

- Eric Postel

  Eric G. Postel has more than 25 years of pioneering development finance experience. As an Associate Administrator at USAID 2011-2017 he was extensively engaged in accelerating USAID's work with the private

sector including via DCA.

- ## Andrew Natsios

Andrew Natsios served as USAID administrator from May 2001 to January 2006. He was also U.S. special envoy for Sudan from 2006 to 2007 and vice president of World Vision U.S. from 1993 to 1996. Natsios, who is currently executive professor and director of the Scowcroft Institute of International Affairs at The Bush School of Government & Public Service at the Texas A&M University, has just written a soon-to-be-released book on foreign aid and international development.

Statement for the Record
Submitted by Mr. Connolly of Virginia

Development finance is an area of this Committee's jurisdiction that has long been neglected. The topic encompasses the mobilization of public and private investment for market-oriented approaches to international development. The Trump Administration has proposed the creation of a new development finance institution (DFI), consolidating various agencies and functions that support private sector growth in emerging economies. While development finance is an important tool to help achieve U.S. foreign assistance and foreign policy goals more broadly, it cannot supplant traditional U.S. development programs. This proposed institution should be designed to achieve development objectives in close cooperation with the U.S. Agency for International Development (USAID).

The United States has used development finance as a tool of foreign assistance since the early days of USAID's existence. Before Congress created the Overseas Private Investment Corporation (OPIC) in 1969, USAID already had a range of investment guaranty and promotion functions. OPIC promotes economic growth in emerging economies by financing overseas investments and insuring against the political risks of investing abroad for qualifying U.S. private investors. This work has contributed an estimated $80 billion in U.S. exports, supported more than 280,000 U.S. jobs, and complemented larger U.S. development assistance objectives.

Despite OPIC's clear returns for American taxpayers, the Trump Administration's FY 2018 budget sought to eliminate funding for OPIC and the U.S. Trade and Development Agency (TDA). Last fall, the Administration performed an about-face on development finance. President Trump committed to reform U.S. development finance institutions so that they "better incentivize private sector investment" and "provide strong alternatives to state-directed initiatives that come with many strings attached." In the FY 2019 budget, the Administration proposed consolidating all U.S. development finance functions into one U.S. development finance institution. While U.S. development finance programs are a critical catalyst to spur growth, they alone cannot fill the gap created by the Trump budget cuts and counter the narrative of retreat that the Trump Administration has peddled around the world. We must ensure that an expansion of development finance does not serve as a substitute for traditional foreign assistance programs.

Following the release of the Administration's budget, Representatives Ted Yoho and Adam Smith introduced H.R. 5105, the Better Utilization of Investments Leading to Development (BUILD) Act. This legislation would establish the U.S. Development Finance Corporation and consolidate various U.S. development finance functions, including USAID's Development Credit Authority (DCA), within the new institution. DCA is a private sector engagement tool that USAID employs to stimulate private sector lending through partial loan guarantees in support of U.S. development objectives. According to former USAID Administrator Andrew Natsios and former USAID Associate Administrator Eric Postel, moving DCA to the new DFI would lead to "a weakened USAID with no ability to attract sustainable funding for projects that are part of larger development efforts." There are also concerns that this bill does not have robust transparency and accountability provisions to ensure that the DFI investments are

contributing to U.S. development objectives. Given the importance of USAID to today's discussion, it is disappointing that we could not hear from the USAID Administrator as well on the Administration's proposal.

Development finance institutions play a significant role in the overall U.S. approach to international economic engagement and development. These entities harness private capital and help make U.S. assistance more sustainable. We should modernize the use of development finance and enhance the capacity of U.S. development finance institutions to work with the private sector in emerging economies. However, that expansion should not come at the expense of USAID's authority as the premier U.S. development agency. We must ensure that this proposed development finance corporation would advance development objectives, be transparent and accountable to the American taxpayer, and have strong institutional linkages to USAID.

Questions for the Record from Representative Dina Titus
Financing Overseas Development: The Administration's Proposal
April 11, 2018

Thank you Mr. Washburne for coming to testify today. I certainly agree that OPIC plays an important role in helping to support development in fragile markets and advancing U.S. foreign policy, but we all know it is not the only solution or arrow in the U.S. foreign policy quiver. I want to make sure that any legislation to carry out the President's plan for a strengthened and consolidated Development Finance Institution does not provide justification for the elimination or reduction of direct foreign aid which is crucial to U.S. foreign policy.

Question:

The Administration's budget for FY18 did not support any new OPIC transactions and significantly reduced OPIC staff. What has changed from last? What conversations did you have with Administration officials to come to the conclusion that now, instead of eliminating it, OPIC should have increased authorization and be consolidated with USAID's Development Credit Authority? Was there any mention that reconfiguring the Development Finance Institution would provide rationale for cutting existing foreign aid?

Answer:

The 2018 President's Budget proposal, coupled with the President's Executive Order on a Comprehensive Plan for Reorganizing the Executive Branch, helped catalyze fresh thinking about how the U.S. Government deploys its development finance tools and whether we are using them most effectively.

Over the course of several months, the Office of Management and Budget and the National Security Council convened a robust interagency dialogue that included input from the Department of State, the United States Agency for International Development (USAID), and the Overseas Private Investment Corporation (OPIC) as well as the Departments of Treasury, Commerce, and others. The interagency working group observed that outdated legal authorities and fragmented interagency coordination hamper the U. S. Government's current ability to deploy development finance.

Currently, both OPIC and USAID's Development Credit Agency (DCA) are re-authorized annually in appropriations bills, which causes uncertainty for their potential private sector partners. OPIC has operated for the last 15 years without significant legislative updates. Likewise, DCA has operated for over 18 years without any significant update or expansion of its original authorities. As a result, these institutions lack the modern, development-finance mechanisms needed to counter the state-driven model of countries.

With this in mind, the group developed a proposal for streamlining and consolidating U.S. development-finance functions to improve efficiencies, reform programming, and help advance U.S. foreign-policy goals while achieving greater development impacts through private sector oriented transactions. For too long, U.S. development finance has been implemented in a fragmented manner across multiple U.S agencies. This has resulted in underutilized

programming, inconsistent alignment with U.S. foreign policy and national security objectives, and reliance on outdated tools and approaches.

The proposed Development Finance Institution (DFI) will be a strong complement to the good work at USAID. The DFI will have an updated governance structure and stronger institutional linkages with State and USAID to the prioritization of projects that are critical ensure national security and developmentally impactful. The connectivity will drive better pipeline and programming coordination amongst U.S. Government agencies.

The Administration is seeking to elevate development finance tools to strengthen U.S. foreign policy and mobilize billions in private sector dollars to the developing world. There has been no discussion among the interagency working group that establishing a new DFI would provide a rationale for cutting direct foreign aid.

Question:

I want to make note of the Cameroon Cataract Development Impact Loan, an OPIC project that will help prevent blindness through the provision of some 18,000 cataract surgeries in Cameroon over the next five years. I appreciate this project's preventive health care approach and partnership with Sightsavers, an organization that works to promote the rights of people with disabilities.

Ensuring all groups are included in public life through development brings economic stability and prosperity for all. What portion of current OPIC projects have a focus on disabilities? If OPIC's portfolio cap is increased, are there any discussions or commitments to increasing the portion of projects focused on promoting inclusive development for people with disabilities in emerging markets?

Answer:

Thank you for recognizing the developmental importance of OPIC's $2 million investment in Cameroon to prevent blindness. The Cameroon Cataract Development Impact Loan represents a new way of funding health care in low and middle income countries by bringing together public and private investors, health donors, and eye care delivery experts.

The funding will support the Magrabi ICO Cameroon Eye Institute (MICEI), which has been established by the Africa Eye Foundation. MICEI will not only provide comprehensive, high-quality and affordable eye care procedures, but will also play an important role in strengthening health care systems by developing healthcare talent for the region by providing certified (through the University of Yaoundé) training to grow the next generation of African eye care experts.

Currently, it's estimated that 15% of the world population experiences some form of disability, with prevalence rates higher in developing countries. Often opportunities for sustainable income generation are directly tied to a person's ability to access finance, markets, and community networks. Yet, research tells us that countries cannot achieve optimal growth by leaving behind a large group of their citizens – persons with disabilities – with economic losses from employment

exclusion ranging from 3 to 7 % of the GDP. Women with disabilities are more likely to earn less than men with disabilities, and they are affected by inaccessible sanitation, smaller social and professional networks, and gender-based violence.

In developing countries, the definition and measurement of disability is challenging. There are large differences in disability figures relating to varying measurement techniques due to the stigmatization of disability in some cultures, subjective perceptions of what is 'disability', and different cultural standards of what is considered to be 'normal'.

Regardless of whether disability is defined by a diagnosable condition or a person's ability to participate in social roles, such as going to school or being employed, OPIC's development mission is firmly intertwined with the needs of disabled persons. One common theme across OPIC projects is the commitment to improve the communities the projects were meant to serve. And to serve communities where it operates, OPIC seeks to focus on health, education, agriculture, water, energy, access to finance and critical infrastructure – all of which create jobs.

Over the last 10 years, OPIC has committed over $2.25 billion dollars to improve healthcare in emerging markets. For example, OPIC recently financed a 2,060 bed hospital project in Izmir, Turkey that will serve an estimated 12,000 patients per day with services such as women's health, pediatrics, cardiovascular, oncology, and forensic psychiatry. It will have a staff of 1,000 doctors and 2,159 other professionals running the hospital. This highly developmental project will enable Turkey to improve the country's under-resourced health care infrastructure. The project will also enable residents to access quality healthcare without having to travel to Istanbul. The project will also introduce new medical technologies that will save and enhance lives.

OPIC's projects encourage workforce participation, often reaching rural areas that lack basic employment opportunities. New projects in FY16 are expected to create over 10,000 permanent host country jobs and support over 12,000 temporary and construction jobs in developing and emerging markets. OPIC's clients reported that nearly half of the 10,000 jobs supported in host countries belong to women. The application of OPIC's strong labor standards, including the implementation of safety measures and clearly defined working conditions, make jobs at OPIC-supported projects particularly desirable.

If OPIC's portfolio cap is increased, it will be possible to support even more developmental projects that will, among other things, help improve healthcare in developing markets and provide more employment opportunities for those with disabilities. The Administration's proposed Development Finance Institution would further enhance the U.S. government's outreach efforts by adding complementary activities, such as the ability to support feasibility studies and subsequent early-stage financing for new projects. To cement further alignment with USAID, the Budget requests $56 million in resources for State/USAID programming (and other transfer authorities) to support activities, such as grants for technical assistance or "wrap-around" services, that complement and support the DFI's project-specific investments. For example, this could include technical assistance to a finance institution to augment underwriting around under-served communities.

Question:

OPIC is widely regarded in the development finance community as having among the most extensive policy requirements for projects to receive its support. Can you provide some examples of where OPIC's stringent policy requirements have helped advance U.S. foreign policy in human rights, workers' rights, and environmental goals and prevented development financing by another country, like China, that might have had more adverse outcomes in some of these areas?

How would a new Development Finance Institution continue to advance U.S. policy on human rights, labor rights, and environmental protection in the projects it would finance? Would anything change in this evaluation for projects?

Answer:

OPIC-supported projects must meet international best practices for environmental and social sustainability, treatment of workers, and respect for human rights. OPIC reviews each project to identify potential adverse impacts and if necessary, develop strategies to mitigate those impacts.

OPIC's Environmental and Social Policy Statement (ESPS) provides guidance to investors and ensures that OPIC projects are environmentally and socially sustainable. The policy statement reflects OPIC's continued focus on the environmental and social performance of its portfolio and builds on the agency's commitment to transparency and accountability. We as an agency view the environmental and social policies and performance of our portfolio as integral to the development impact that we strive to achieve with our work.

OPIC completed a two year process of consultation and review last year. OPIC initiated that process of revising the ESPS in 2015. Over an eight month period, OPIC conducted a series of stakeholder meetings with OPIC staff, the business community, civil society and interested Federal Agencies. After consideration of comments and suggestions received through stakeholder meetings and written submissions, OPIC issued a draft revised ESPS on September 23, 2016 for public comment. The statement was approved in January 2017.

OPIC uses an environmental and social assessment process to evaluate the potential environmental and social impacts of an applicant's project and to identify means to improve the project by preventing, minimizing, remediating or compensating for potential adverse impacts as a condition of OPIC support. The process includes the following:

- Identification of potential adverse environmental and social impacts
- Disclosure of the project's environmental and social impact assessment (ESIAs) for public review and comment for certain projects
- Comparison of the project's performance in relation to internationally-accepted standards and alternative approaches
- Evaluation or design of mitigation measures
- Evaluation or design of associated management and monitoring measures

Investments utilizing these types of stringent policies represent the most sustainable and responsible approach to development and offer a stark contrast to the opaque, exploitive, and low-quality deals offered by authoritarian states. However, China's Belt and Road Initiative

(BRI) continues to change the political and economic landscape across the Indo-Pacific – and beyond.

The amount of investment planned for this initiative is staggering. Estimates suggest investment of up to $8 trillion aimed to interconnect about 65 percent of the world's population, about one-third of the world's GDP, and about a quarter of all the goods and services. The projects are operationally uncoordinated, and China remains one of the least transparent nations in the world.

In 2017, the State Department said, "the financing mechanisms it [China] brings to many of these countries which result in saddling them with enormous levels of debt. They don't often create the jobs, which infrastructure projects should be tremendous job creators in these economies, but too often, foreign workers are brought in to execute these infrastructure projects. Financing is structured in a way that makes it very difficult for them to obtain future financing, and oftentimes has very subtle triggers in the financing that results in financing default and the conversion of debt to equity."

For years, the international community has expressed concerns about China's commitment to environmental and social safeguards. China is funding infrastructure projects that carry significant environmental risks and involve the involuntary resettlement of large numbers of people. Its position is that it follows the laws and regulations of the host country.

It would be speculative to state OPIC projects would have had more adverse outcomes had they been sponsored by a country like China. But a cursory comparison of OPIC's stringent environmental and social policy standards reveal a significant disparity in China's policies versus the U.S. government's commitment to instituting best practices respecting human rights and the rights of workers as well as protecting the environment.

The new Development Finance Institution will continue to uphold the highest environmental, social and worker rights standards.

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